

FDIC State Profile

Winter 2004

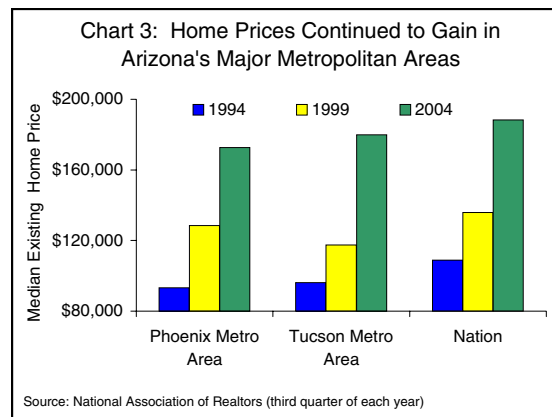
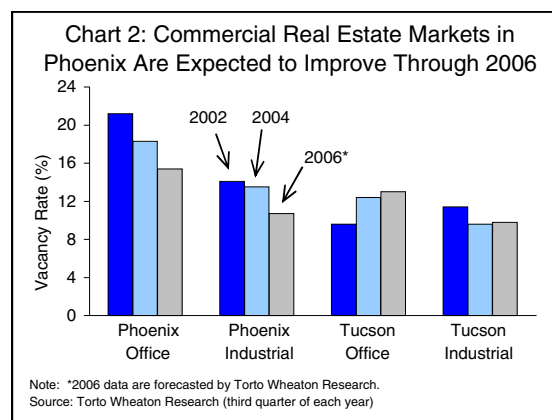
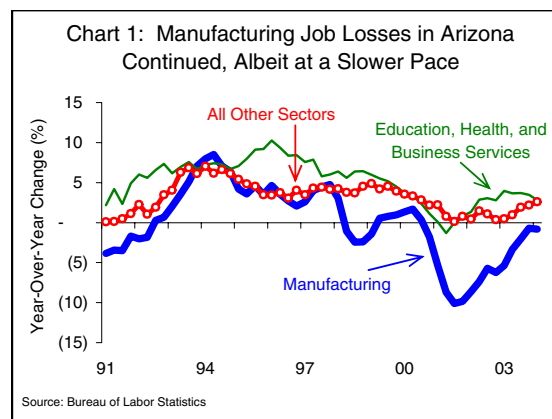
Arizona

Arizona's 2.4 percent job growth in third quarter 2004 ranked fifth nationwide.

- During the 12 months ending September 2004, the education, health, and business service sectors added nearly 20,000 new jobs, about one-third of the net new jobs in the state. Strong population growth and business formation bode well for these sectors.
- Strong population growth has also fed the sizzling construction sector, which added 15,000 jobs during the past year. The industry reported shortages of some construction workers, which may dampen job growth prospectively. In addition, the Western Blue Chip Economic Forecast expects the frenzied pace of single family housing permit issuance to decline in 2005.
- Arizona's manufacturing sector gained strength, but still reported job losses (See Chart 1). Defense spending could brighten the outlook for the state's manufacturing sector in the next few years.

Phoenix commercial real estate (CRE) markets improved.

- The **Phoenix** metropolitan area reported improving vacancy rates at office properties, particularly in suburban areas. Torto Wheaton Research (TWR) expects that strong absorption during the next two years will lead to further improvement (See Chart 2). In the **Tucson** market, TWR forecasts slight vacancy rate increases by third quarter 2006.
- TWR expects a similar trend for the Phoenix and Tucson industrial markets. Conditions in Phoenix are forecast to improve, while Tucson availability rates may soften slightly.
- Stable to improving CRE trends are critical in these two markets, which are home to 80 percent of all insured institutions headquartered in the state. Phoenix- and Tucson-based institutions reported a median CRE¹ loan-to-Tier 1 capital ratio of 428 percent, up from 338 percent last year. Arizona-based institution CRE concentrations were second only to Oregon.



¹CRE loans include construction and development, multifamily, and nonfarm-nonresidential mortgages.

State Profile

- Construction and development (C&D) loans represented 151 percent of Tier 1 capital among institutions based in the Phoenix and Tucson markets, triple the median ratio reported among all metropolitan-based institutions nationally. The state's median C&D loan-to-Tier 1 capital ratio was highest in the nation.
- Third quarter past-due CRE loan ratios declined to nominal levels among Phoenix- and Tucson-based established institutions, but may have benefited from strong loan growth. The median annual growth rates for C&D and other CRE loans at these institutions were 24 percent and 27 percent, respectively.²

Arizona's consumer sector is relatively healthy.

- Although Phoenix and Tucson experienced building booms, demand has kept pace as evidenced by a decrease in the length of time homes remained on the market and an increase in prices (See Chart 3).
- At the same time, personal bankruptcy filings through the 12 months ending June 2004 declined relative to last year. Foreclosure starts also eased. The University of Arizona expects the state's personal income and retail sales to rise during 2005.
- Past-due 1-4 family mortgage and consumer loan ratios in Arizona were among the lowest nationally, but this may be a reflection of relatively young loan portfolios and low interest rates. Recent mortgage originations have focused, in part, on home equity lines of credit (HELOC). HELOCs grew at a median rate of 34 percent year-over-year among Arizona-based institutions open at least three years, which nearly doubled the group's median HELOC-to-Tier 1 capital ratio to 20 percent.

Strong economic growth fostered branching activity.

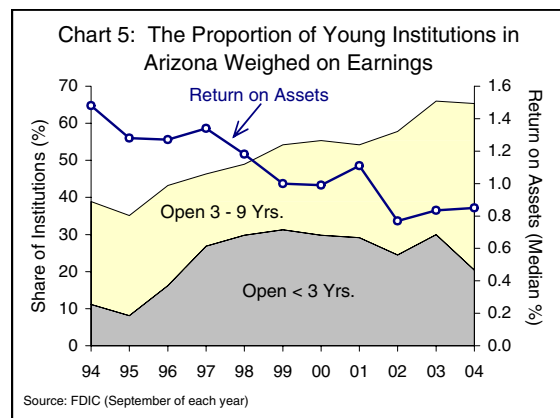
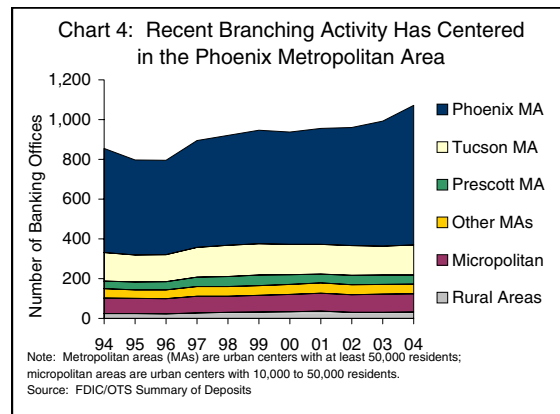
- Annual growth in banking offices in Arizona accelerated year-over-year through June 2004. At 7.9 percent, Arizona reported the fastest rate of office growth between mid 2003 and mid 2004 of any state.
- The majority of new offices were opened in the Phoenix area, which experienced robust population growth and new bank chartering activity during the past decade (See Chart 4). In the last year alone, the number of banking offices in the Phoenix market grew 11 percent, placing it sixth among all metropolitan areas nationally.

Bank and thrift earnings remained low and stable.

- Although year-to-date net interest margin, overhead, and provision expense-to-average asset ratios improved, the median return on assets (ROA) ratio among

Arizona-based institutions remained flat year-over-year at 0.85 percent. Overall earnings performance compared unfavorably with a national median of 1.05 percent and continued to reflect the high proportion of young institutions, which often report weak profits in the first few years of operation (See Chart 5). Half of the ten Arizona-based institutions open less than three years were unprofitable as of third quarter 2004, while established institutions in the state reported a median ROA of 1.09 percent.

- Loan loss provision expenses kept pace with low charge-off and delinquency activity, but often did not track robust loan growth. As a result, the median loan loss reserve-to-total loan ratio slipped to 1.07 percent, down 11 basis points from last year, and well below a nationwide median of 1.23 percent.
- Among established institutions, the median annual loan growth rate topped 25 percent in third quarter 2004, compared with less than 9 percent nationwide. More than half of these institutions relied on brokered deposits to support loan growth, up from just 12 percent five years ago.



²Established institutions include insured institutions open at least three years.

Arizona at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	49	50	45	48	47
Total Assets (in thousands)	55,482,974	55,880,761	46,836,634	65,313,389	57,725,458
New Institutions (# < 3 years)	10	15	11	14	14
New Institutions (# < 9 years)	32	33	26	26	26
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	10.12	9.75	9.05	9.72	9.21
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.34%	0.65%	0.76%	1.40%	1.02%
Past-Due and Nonaccrual >= 5%	1	2	3	6	2
ALLL/Total Loans (median %)	1.07%	1.18%	1.23%	1.29%	1.21%
ALLL/Noncurrent Loans (median multiple)	3.58	2.46	2.46	2.01	2.81
Net Loan Losses/Loans (aggregate)	4.06%	4.18%	5.24%	2.49%	1.88%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	7	10	10	15	12
Percent Unprofitable	14.29%	20.00%	22.22%	31.25%	25.53%
Return on Assets (median %)	0.85	0.84	0.77	1.11	0.99
25th Percentile	0.38	0.16	0.11	-1.09	0.19
Net Interest Margin (median %)	4.96%	4.56%	4.84%	4.98%	5.59%
Yield on Earning Assets (median)	6.02%	6.02%	7.00%	8.50%	9.03%
Cost of Funding Earning Assets (median)	1.23%	1.35%	2.14%	3.57%	4.01%
Provisions to Avg. Assets (median)	0.18%	0.32%	0.23%	0.24%	0.22%
Noninterest Income to Avg. Assets (median)	0.60%	0.72%	0.87%	0.72%	0.64%
Overhead to Avg. Assets (median)	3.59%	3.72%	4.18%	4.47%	4.23%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	93.58%	83.43%	85.11%	79.11%	82.04%
Loans to Assets (median %)	73.11%	68.06%	72.31%	66.85%	70.92%
Brokered Deposits (# of Institutions)	24	21	19	15	13
Bro. Deps./Assets (median for above inst.)	8.23%	6.63%	9.12%	7.08%	4.91%
Noncore Funding to Assets (median)	17.17%	15.57%	17.60%	16.17%	15.77%
Core Funding to Assets (median)	70.14%	65.85%	67.09%	62.27%	67.51%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	30	27	20	20	20
National	14	16	16	18	17
State Member	1	3	6	6	6
S&L	0	0	0	0	0
Savings Bank	4	4	3	4	4
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Phoenix-Mesa AZ	34	49,909,507	69.39%	89.95%	
Tucson AZ	5	3,898,060	10.20%	7.03%	
Las Vegas NV-AZ	4	1,287,567	8.16%	2.32%	
Yuma AZ	3	220,030	6.12%	0.40%	
No MSA	2	109,839	4.08%	0.20%	
Flagstaff AZ	1	57,971	2.04%	0.10%	